



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

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December 18, 2007

Mr. Mike S. Evans, Warden
Salinas Valley State Prison
P.O. Box 1020
Soledad, CA 93960-1020

Dear Mr. Evans:

Final Report: Salinas Valley State Prison—Internal Control Review

Enclosed is our final internal control report on the Salinas Valley State Prison (Institution) as of November 6, 2006. The Department of Finance, Office of State Audits and Evaluations (Finance), performed this review to meet the Institution's requirements for the Financial Integrity and State Manager's Accountability Act of 1983, Government Code Section 13400, et seq.

The findings in our report are intended to assist the Institution management in focusing attention on areas of risk, strengthening internal control, and improving operations. The Institution agreed with our findings and we appreciate the Institution's willingness to implement corrective action.

As required by the Financial Integrity and State Manager's Accountability Act of 1983, Government Code 13400, et. seq., please provide us with a corrective action plan within 30 days from the date of this letter. In addition, an updated corrective action plan every six months is required until all of the recommendations are implemented. Mail your corrective action plan to:

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

We appreciate the assistance and cooperation of Institution staff and management during our review. In accordance with Finance's policy of increased transparency, the report will be placed on our website. If you have any questions, please contact Kimberly Tarvin, Manager, or Rich Hebert, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. James E. Tilton, Secretary, California Department of Corrections and Rehabilitation
Ms. Heidi Lackner, Director, Division of Support Services, California Department of
Corrections and Rehabilitation
Mr. Scott Carney, Deputy Director, Fiscal Services, California Department of Corrections
and Rehabilitation
Mr. Timothy Gilpin, Associate Director, Accounting Services, California Department of
Corrections and Rehabilitation
Ms. Kim Holt, External Audits Manager, Office of Audits and Compliance, California
Department of Corrections and Rehabilitation
Ms. Gayle Fifield, Administrator III, Regional Accounting Office, Northern Region, California
Department of Corrections and Rehabilitation
Mr. Jaime Corvera, Administrator II, Central Coast Regional Accounting Office, California
Department of Corrections and Rehabilitation

AN INTERNAL CONTROL REVIEW

Salinas Valley State Prison

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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The California Department of Corrections and Rehabilitation (Department) operates all state adult prisons and juvenile facilities, oversees a variety of community correctional facilities, and supervises all adult and juvenile parolees during their reentry into society. The Department's adult program includes 33 institutions which span the state from Pelican Bay State Prison in the northwest corner of California to Centinela State Prison near the United States/Mexico border.

The Department's Sacramento Headquarters and eight regional accounting offices perform the fiscal administrative functions related to the adult institutions. Many of these accounting and administrative functions are consolidated within the regional accounting offices. However, some functions, such as inmate trust and stores accounting, are performed at the institutions. The Department's fiscal administrative structure enhances its ability to provide effective fiscal management through centralization of Institutions' accounting records, application of consistent accounting procedures, monitoring of fiscal activity, and retention of trained and qualified staff.

The Salinas Valley State Prison (Institution) is served by the Central Coast Regional Accounting Office (RAO). An internal control review of the Institution was performed in conjunction with a review of the RAO. Separate reports are being issued for the RAO and the Institution. The findings in this report pertain to the Institution's controls over the processing and preparation of Institution transactions and financial statements.

State managers are required to maintain internal control over the programs they administer. Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. This definition of internal control includes five interrelated components:

- *Control environment* sets the tone of an organization and influences the control consciousness of its staff. It is the foundation for all other components of internal control and provides discipline and structure.
- *Risk assessment* is the entity's identification and analysis of relevant risks to the achievement of its objectives and forms a basis for determining how risk should be managed.
- *Control activities* are the policies and procedures that help ensure management directives are carried out.
- *Information and communication* are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.

- *Monitoring* is the process that assesses the quality of internal control performance over time.

The objective of the internal control review was to assist the Department in complying with the Financial Integrity and State Manager's Accountability Act of 1983, Government Code Section 13400, et seq. Specifically, the Department of Finance, Office of State Audits and Evaluations, assisted the Department in determining whether the Institution's: (1) assets are safeguarded from unauthorized use or disposition, (2) financial transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of reliable financial statements, and (3) financial operations are conducted in accordance with State Administrative Manual guidelines, certain other state laws and regulations, and the Institution's and Department's policies and procedures.

The review did not include an evaluation of the efficiency or effectiveness of the Institution's operations, or the accomplishment of program goals or objectives.

This report is intended for the information and use of Institution and Department management. It is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

STAFF:

Kimberly Tarvin, CPA
Manager

Rich Hebert
Brandon Nunes
Supervisors

Randy McClendon
Lisa Negri
Cindie Lor
Mary Tesema

EXECUTIVE SUMMARY

The review of the Salinas Valley State Prison (Institution) internal control indicated that controls were in place and working as intended for cash receipts, cash disbursements, purchasing, receivables, personnel and payroll, property, contracts, and inmate trust funds. Specifically, cash receipts are correctly recorded and deposited, cash disbursements are made for allowable purposes, and bank reconciliations are completed timely. Purchases are properly authorized and made in accordance with state policies and receivables are established for amounts due. Additionally, controls over personnel and payroll are sufficient to ensure the reliability and integrity of payroll data. Property is adequately safeguarded from unauthorized acquisition, use and disposition. Contracts are appropriately approved, and inmate trust funds are properly safeguarded and accounted for. However, controls could be improved to reduce the risk of errors, irregularities, and material misstatements in the areas of: institutional stores and the revolving fund.

The findings in this report are based on fieldwork performed between September 11, 2006 and November 6, 2006. The findings and observations were presented to the related units and Institution management throughout the fieldwork and at the exit conference held September 11, 2006.

This review was limited to the Institution's accounting and administrative functions and did not include the accounting and administrative functions performed at the Central Coast Regional Accounting Office (RAO) or the Department of Corrections and Rehabilitation Headquarters (Headquarters). Specifically, information technology, budget, and financial reporting activities were not reviewed and the contracts cycle review was limited. The RAO is primarily responsible for the Institution's financial reports and information technology processing for fiscal and accounting functions processed by the California State Accounting Reporting System (CALSTARS). In addition, the RAO and Headquarters process all budget transactions and contracts with a value of \$5,000 or higher for the Institution. Furthermore, the review did not include an evaluation of the efficiency or effectiveness of the Institution's operations, or the accomplishment of program goals or objectives.

Reportable Conditions

Institutional Stores: The Institution's controls over the pharmacy do not ensure proper accountability. Specifically, the pharmacy does not maintain a perpetual inventory system to control the receipt and issuance of pharmaceuticals.

Revolving Fund: The Institution's controls over salary advances are weak. For three of seven salary advances reviewed, the employees were not notified timely of amounts due delaying the collection of these receivables from four months to one year.

For further analysis of these weaknesses, see the *Findings and Recommendations* section of this report. This report is intended to assist the Institution management in focusing attention on areas of risk and in strengthening internal control and improving operations.



AUDITOR'S REPORT

Mr. Mike S. Evans, Warden
Salinas Valley State Prison
P.O. Box 1020
Soledad, CA 93960-1020

The Department of Finance, Office of State Audits and Evaluations, reviewed the internal control of the Salinas Valley State Prison (Institution) as of November 6, 2006, for conformity with Government Code Section 13400, et seq. The review included gaining an understanding of internal control through observations and interviews, evaluating the design and operating effectiveness of the internal control, and performing other procedures deemed necessary.

The Institution's management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code Section 13400, et seq., includes documenting internal control, communicating requirements to employees, and assuring that the internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control are to provide reasonable, but not absolute, assurance of the following:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

Because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk the internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Based on the review of the Institution's internal control as of November 6, 2006, certain matters were noted involving the Institution's internal control and its operation that are considered to be reportable conditions. Reportable conditions involve matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that could adversely affect the Institution's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition that precludes the Institution's internal control from providing reasonable assurance that material misstatements in the financial statements will be prevented or detected on a timely basis. We believe that none of the reportable conditions is a material weakness. The reportable conditions are described in the *Findings and Recommendations* section of this report.

This report is intended for the information and use of Institution and Department management. It is not intended to be and should not be used by anyone other than the designated parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations
(916) 322-2985

November 6, 2006

FINDINGS AND RECOMMENDATIONS

The review of the Salinas Valley State Prison's (Institution) accounting and administrative controls in effect as of November 6, 2006, indicates that many controls were functioning as intended. Specifically, no reportable conditions were identified for cash receipts, cash disbursements, purchasing, receivables, personnel and payroll, contracts, and inmate trust funds. However, some controls were not operating as intended, and corrective action is needed to safeguard assets from loss. If left uncorrected, these weaknesses could increase the risk that material errors and irregularities could occur and remain undetected.

Institutional Stores

Effective internal control over institutional stores is necessary to ensure that inventory is properly accounted for and adequately safeguarded. The following internal control weakness over institutional stores was identified.

FINDING 1 Lack of Pharmaceutical Inventory System

Condition: The Pharmacy does not maintain an inventory showing the receipt, issuance, or availability of pharmaceutical items. Total pharmaceutical expenditures for Fiscal Year 2005-06 exceeded \$4.9 million.

The sensitive nature and volume of pharmaceuticals require that procedures be in place to prevent the loss or misappropriation of these items. Lack of controls over pharmaceuticals may result in monetary loss, misappropriation, or injury due to misuse.

Criteria: State Administrative Manual (SAM), Section 10860, states that a physical inventory of materials and supplies be completed every three months.

Recommendation: Establish an inventory control system over pharmaceuticals and conduct a physical count of these items quarterly. Physical counts should be reconciled to the inventory system's balances on hand with adequate explanation of discrepancies.

Revolving Fund

Effective internal control over the revolving fund is necessary to ensure that controls are established for amounts due, and adequate collection efforts exist. The following internal control weakness over the Institution's revolving fund was identified.

FINDING 2**Employees Not Promptly Notified of Outstanding Salary Advances**

- Condition:** Employees were not notified of outstanding salary advances promptly. For three of seven salary advances reviewed, the advances were posted between September 2005 and June 2006, but the employees were not notified that repayment of the advances was due until October 2006. Consequently, collection efforts did not begin until November 2006. Untimely notification to employees of amounts due delays the collection of employee accounts receivable and increases the risk that these amounts may not be collected and state funds will remain unavailable for other uses.
- Criteria:** SAM, Section 8776.6, allows for collections from current employees to be made by installment through payroll deduction if the employee does not agree to repay the amount owed in a lump sum or does not respond to a written notification within the designated time period.
- SAM, Section 8776.7, provides guidelines for collection procedures to ensure prompt collection of accounts receivable from former state employees. Furthermore, if all reasonable collection procedures do not result in repayment, agencies should request discharge of accountability for uncollectible amounts owed.
- Recommendation:** Ensure that employees are notified of overpayments promptly, and that collection procedures are implemented timely.

I NSTITUTION R ESPONSE

DIVISION OF ADULT INSTITUTIONS

1515 S Street, Sacramento, CA 95814
P.O. Box 942883
Sacramento, CA 94283-0001



November 9, 2007

Diana L. Ducay, Chief
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Ms. Ducay:

Draft Report: Salinas Valley State Prison – Internal Control Review: Revolving Fund

This is in response to the internal control audit conducted here at Salinas Valley State Prison as of November 6, 2006. Staff have reviewed the findings and have provided responses and plans to correct the findings. The findings and the responses are listed below.

FINDING 1 Lack of Pharmaceutical Inventory System

The auditors found that the institution pharmacy is not maintaining an inventory showing the receipt, issuance, or availability of pharmaceutical items. State Administrative Manual (SAM), Section 10860, states that a physical inventory of materials and supplies is to be completed every three months. The recommendation is to establish an inventory control system over pharmaceuticals and to conduct a physical count of these items quarterly.

Response to Finding:

Currently, Amerisource Bergen completes a yearly inventory of medications on hand as negotiated in the state contract. The last inventory completed by Amerisource Bergen was done in January 2007. The Medical Receiver, Robert Sillen, has contracted with Maxor, a pharmaceutical management company, to develop a software program, Guardian, which will track all medications dispensed to inmate patients. The new program will provide an inventory tracking system that will account for all medications received from the contracted vendor, medications dispensed to inmate patients, and compare dispensed medications to the prescriptions. Folsom State Prison is operating the program now as a pilot institution.

FINDING 2 Employees Not Promptly Notified of Outstanding Salary Advances

The auditors found that not all employees who were issued salary advances were notified in a timely manner that repayment of the advances was due to the institution. Three of seven salary advances reviewed remained outstanding with no collection efforts made within a reasonable time frame. The recommendation is to ensure that employees are notified of overpayments promptly and that collection procedures are implemented timely to ensure state funds remain available for future use.

Response to Finding:

There are procedures in place to ensure all salary advances are cleared and/or the collection process is started within 30 days. As a result of this audit, we have found that we needed to reiterate those procedures and the importance of them with the staff. On or about the 20th of each month a report of outstanding salary advances is provided to Personnel. Personnel staff are to notify the Institution Accounting Office staff of the action to be taken on the outstanding balance by the end of the month. Either the amount due will be collected from the employee's master pay or a letter will be issued notifying the employee that the balance is due and is to be received in the Accounting Office within 30 days. The institution will work with the Regional Accounting Office to set up an accounts receivable through a collection agency for separated employees if after three attempts we are still unable to collect. Management will monitor this activity and ensure that advances are only issued for late payroll or that a legitimate hardship exists for the employee.

If you need any additional information, please contact Kelly Green, Correctional Business Manager at (831) 678-5556 or by email at Kelly.Green@cdcr.ca.gov.



M. S. EVANS

Warden

Salinas Valley State Prison